MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Official Minutes from the April 13, 2021 MCC Advisory Council Meeting

Millennium Challenge Corporation (MCC)
April 13, 2021
10:00am – 12:30pm

Meeting Agenda

9:45am	Webex Conference Line Opens
10:00am – 10:15am	Call to Order, Roll Call and Welcome from Co-Chairs *Alex Dixon, Practice Lead/Senior Director, Finance, Investment and Trade* *Florie Liser, Corporate Council on Africa – Council Co-Chair* *Willie Gaynor, Rock Creek Advisors – Council Co-Chair*
10:15am – 11:20am	Welcome and Discussion with MCC Leadership MCC VP Introductions *Aysha House, Vice President, Congressional and Public Affairs* *Cameron Alford, Vice President/General Counsel and Corporate Secretary* *Fatema Z. Sumar, Vice President, Department of Compact Operations* Member Q&A and Discussion with DCEO and DCO VP *Alexia Latortue, MCC Deputy Chief Executive Officer* *Fatema Z. Sumar, Vice President, Department of Compact Operations*
11:20am – 11:30am	10 – minute break

11:30am – 12:20pm	Solomon Islands Presentation *Jason Bauer, Director, Finance, Investment and Trade* *Matt Kuniholm, Senior Program Officer, Environmental and Social Performance* Member Feedback and Discussion
12:20pm – 12:25pm	Advisory Council Housekeeping *Alex Dixon, Practice Lead/Senior Director, Finance, Investment and Trade*
12:25pm – 12:30pm	Opportunity for Public Comment
12:30pm	Meeting Adjourns

Call to Order and Welcome – Introduction and Overview of the Meeting

Alex Dixon, Practice Lead/Senior Director of Finance, Investment, and Trade opened the meeting with a greeting to the MCC Advisory Council members and thanked everyone for their attendance. MCC Advisory Council Co-Chair **Florie Liser** shared remarks about supporting the existing leadership and asking for MCC to broaden investment in new platforms and involving more US companies.

MCC VP Introductions

Aysha House, Vice President, Congressional and Public Affairs
VP House welcomed everyone and expressed that there are a lot of great opportunities ahead to find ways to work not only within the agency, but more successfully with sister agencies and civil society. VP House stated that she looks forward to engaging with the private sector.

Cameron Alford, Vice President/General Counsel and Corporate Secretary
Cameron greeted everyone and introduced his background, including his previous work at the Overseas Private Investment Corporation (OPIC) and the private sector. Cameron said he had come home to MCC because it is a place where he wants to be. He said that it is a real privilege to get to know the real heart and soul of the agency and the staff in his short time there. He looks forward to engaging with the MCC Advisory Council members.

Fatema Z. Sumar, Vice President, Department of Compact Operations
VP Sumar thanked everyone for their service and expressed wanting to ensure that we think about the future collectively, and that we keep all the voices of different perspectives, including private sector, civil society, and government at the forefront of our decision making. VP Sumar stressed the importance of thinking about building back better for the future of our post-COVID-19 recovery. She mentioned appreciation for the uniqueness of this space because it is a partnership with everyone, their expertise, leadership, and insight that is going to help guide MCC make strategic choices, think through operational issues, and find its footing to be more relevant. She values all the contributions – not just from the biannual meetings, but also from the subcommittees, the country teams, and the staffs and partner countries around the world.

Member Q&A and Discussion with DCEO and DCO VP

Alexia Latortue, MCC Deputy Chief Executive Officer
DCEO Latortue thanked VP Sumar and opened by saying that "It takes a village to bring us all together, but we have done so." She expressed being thrilled to have joined MCC, explained how MCC was established to strike at the heart of what holds a country back from growing its economy, and stated that it is MCC's vision to tackle the most stubborn constraints to growth in the areas of transportation, water, and energy – through a mix of infrastructure, social, and institutional investment. MCC does this through a model based on rigorous analytics and accountability, with a systemic approach to helping ensure sustainability.

This year, the agency plans to bring to the Board four new compacts and two threshold programs totaling over $1 billion, with an additional $1.4 billion identified for programs under development. She continued by saying that MCC will have the best use of financing because of the "high-quality money" of its grants, which do not add to countries' debt burdens – and that are flexible, predictable, and multi-year.

DCEO Latortue laid out three strategic priorities that will spur high-quality growth in partner countries that is sustainable, inclusive, and job-rich. She first addressed sustainability and the existential challenge of climate change. MCC has a strong track record on climate change, including adaptation, resilience, and mitigation. Between FY15-FY20, MCC devoted $ 1.5 billion, or roughly 38 percent of our portfolio of compacts, to climate-related activities. MCC is also developing a new agency-wide climate strategy and defining contributions to the April Climate Leaders Summit and beyond in the lead up to COP 26, with a plan to invest in countries to promote climate-smart development and sustainable infrastructure, aligned with countries' nationally determined contributions (NDCs). MCC will also press for climate policy and institutional reforms to broaden impact, including helping countries define their NDCs, and will deepen partnerships to catalyze private capital into climate issues.

As for the second priority, MCC seeks to make inclusion central to the translation of growth into poverty reduction, and to contribute to social access and equity. What is currently being looked at is expanding MCC's economic models and diagnostic tools to improve the distributional impact of projects and ensure "pro-poor" approaches are incorporated within MCC programs. Great work has been done with MCC's Women's Economic Empowerment (WEE) program, and given the demographic trends in MCC's countries, MCC wishes to take a closer look at youth. The third priority is to continue to make strategic use of grants to mobilize private sector financing for development priorities and the economic recovery from COVID-19. There is a new blended finance strategy that incorporates feedback from the Advisory Council blended finance subcommittee and that has adopted new institutional investment criteria. MCC is actively working on new partnerships to optimally blend public and private financing and to shape policy to reduce risks and market failures that impede private investment.

The new blended finance mechanism with the U.S. International Development Finance Corporation (DFC) is called the American Catalyst Facility for Development (ACFD), which is meant to enable investments by DFC in MCC partner countries that would not otherwise be viable for DFC and that are consistent with the missions of both MCC and DFC. Similarly, MCC has a new partnership with Africa50 to develop the Millennium Impact Infrastructure Accelerator (MIIA).

DCEO Latortue finished by stating how she looks forward to engaging with everyone on these priority areas and hearing everyone's feedback; she then turned it back to Alex to open the discussion.

Josh Powell stated how MCC has a well-earned reputation as being particularly data- and evidence-driven. He asked about the priorities of expanding MCC's capabilities and activities for using data throughout the compact lifecycle to match its strengths at the design and evaluation stages. **DCEO Latortue** responded that it will begin with some investment in systems and methodologies to make more use of data. She wants to do more for the countries and leave behind strengthened data systems. She also mentioned exploration of new technologies and big data as areas to explore. **VP House** added that there is a huge opportunity here to think really strategically, both internally and externally. Internally, MCC just wrapped up its five-year partnership with PEPFAR on the Data Collaboratives for Local Impact (DCLI) initiative. VP House brought up such questions as what comes next, the use of the modeling and lessons learned, and operations in countries. She believes it is important to strengthen local capacity and development processes.

Stephen Groff stated that he was at MCC at the very beginning back in 2007 and struggled then with institutional coordination with other development actors outside of the US ecosystem. He wanted to know how MCC will advance institutional coordination with other development actors in the field. **DCEO Latortue** responded that it is a priority to discuss partnerships, and that she believed in the importance of a network that is mostly outside the US in the development space with people that agree with MCC in many respects. About 10 years ago, she said, a lot of people either did not know them or her. She believes there is work to be done and that it is a great opportunity. She also mentioned that when people are not linking up with MCC, it is important to be proactive in the world and reach out to other institutions. For example, collaboration with USG institutions is important, as well as with others such as USAID and NASA. **VP Sumar** added points regarding strengthening communications, both at a country level in our country compacts, and strategically across the organization. The teams are building muscle and muscle memory over the years, and MCC is now in a much better position to do this than five years ago. The work that remains is figuring out how to take MCC's uniqueness and align with annual budget cycles and for the multi-year strategies for the World Bank and others.

Justin DeAngelis asked about the climate focus and whether this means that compacts focused on power or infrastructure will no longer support any generation or infrastructure that touches fossil fuels in any way. **Robert Prieto** asked to what extent MCC sees an opportunity to invest in transformational energy, such as hydrogen, to create a leadership or first mover position in compact countries. **DCEO Latortue** responded on the issue of gas, specifically how the world may run out of gas. She indicated that there are conversations happening on this topic, and the one country under consideration in the pipeline is Kosovo. The conversation included other topics such as investing in new battery storage and positioning countries toward low carbon technologies. DCEO Latortue believes that there are still a lot of questions to be considered, such as what it means in terms of potential stranded assets, and ways of building pipes that could be converted to a different source of energy. **VP Sumar** agreed that there are opportunities to declaratively move away from fossil fuels, and that the goal is for MCC – in both short, medium, and long term – to move all its investments towards low carbon pathways. She continued by

Tony Bello asked how MCC sustains leverage in the private sector, in compact countries, to champion not just development, but also help them get to the finish line. He asked whether there is a mechanism on a clear path for doing that and wondered how people leverage that kind of mechanism for the public relations effort of MCC to get people excited. **DCEO Latortue** replied by stating that MCC has members from the private sector on its board of directors, and that the associates are accountable entities that run the programs. She believes that there is much the team could do in building the outreach and public communication capacity of its employees. She also mentioned that the authorization extends the duration of some contacts by a year on a case-by-case basis, and that so far MCC is looking at doing that for five years capacity, which will give countries an extra year to get the work done. She finished by stating that a lot of the work that the team does is in the interest of the sector, which includes prioritizing infrastructure in its own right and in light of global recovery. **VP Sumar** emphasized the importance of partnerships and having conversations across the US government, international financial institutions, and multilaterals to be sure they are all on the same page. **DCEO Latortue** added that MCC's prioritizing congressional public affairs in building international communications means making sure that all the embassies in its cities have very strong CPA type people within their respective organizations. It is crucial that people throughout the private sector hear more about opportunities to work with MCC and that MCC is linking them with the Foreign Commercial Service colleagues, State Department, and USAID to find ways for them to be able to locally engage with the local economy.

Oren Whyche-Shaw asked about MCC's efforts in data collection and creating succinct elevator pitches on impacts and evidence of sustainability. **David Spira** asked if MCC has a target for the number of active contacts or for strategy in this regard and its constraining factors.

DCEO Latortue replied that the team made a lot of progress and is working hard in terms of developing and synthesizing user-friendly ways to communicate. **VP House** expressed her thoughts regarding the importance of the accounts knowing exactly what MCC is doing regarding impact, and how she is working with colleagues and academics. She wants to make sure that this conversation is proactive, and that when it comes to the DFC, that they know the impact as well.

Tam Nguyen asked whether, beside the energy transition, MCC sees or anticipates demand for digital in compact countries. **DCEO Latortue** responded by stating that there is demand, and that the evidence is very clear that more advanced countries are getting social transfers out to their populations faster, whether it was keeping school budgets online or for other reasons. **VP Sumar** stated that what is in digital does not always show up in their constraints analysis as a binding constraint to growth on the digital side, but that the team still looks for opportunities in the compacts to weave it in for integration.

Solomon Islands Presentation

Jason Bauer, Director, Finance, Investment and Trade
Matt Kuniholm, Senior Program Officer, Environmental and Social Performance

Jason Bauer and **Matt Kuniholm** ad-council-april21-minutes-solomon-islands-presentation, the Accessing Land for Tourism Investment Facilitation Project (ALTIF), and the Forest Value Enhancement Project (FoVEP) project. Starting with the current context of Solomon Islands, Jason explained Solomon Islands government corporation, political and social situation, tourism, and the land and forestry sectors. Some highlights from those sections are the government's adoption of the Cabinet Paper, reflecting high-level support for the program; the switch in diplomatic recognition from Taiwan to China; and the over-harvested forests that caused a decline in logging exports and revenues. A notable point is how tourism offers a key opportunity for job creation, but sector growth will require securing land for investment, a stronger investment climate, and increased government capacity. Some issues mentioned in this segment were that the inability of investors to access land is a binding constraint to growth in Solomon Islands; that sector contribution to GDP has much room to improve in tourism; and logging issues. In the ALTIF section, Jason mentioned how IFC is assessing 50 sites for new accommodations and expects around 12 to make it through the criteria filters, of which land access is a primary driver. There is an opportunity for MCC to support a more structured investment promotion process and possibly a PPP transaction, and to engage communities around land access and natural resource management for targeted investments. Jason addressed how a committee consisting of key ministries and agencies will be responsible for coordination and decision-making in tourism investments, and how guarantees, direct investments, and political risk insurance are potential blended finance instruments that can mitigate risks. As for FoVEP, its objective is to generate more reliable, sustainable benefits from Solomon Islands' forest resources. Matt explained how this could be done by scaling up an economically viable payment for ecosystem services (PES) program and facilitating incremental forest sector policy and institutional reforms in participating areas.

Member Discussion

Stephen Groff began the discussion by asking how the program relates to the broader purpose of MCC's threshold program, and how this program can contribute to specific policy reforms that will prepare the Solomons Islands for full compact eligibility. **Jason** responded that the MCC threshold program was focused on the country's increasing performance on specific indicators to become eligible for compacts and said he believes that it is more of a hybrid approach that brings policy reform and projects together. Jason stated that in the tourism sector, the types of reforms that can be undertaken for investors will increase their performance on the scorecard around the economic freedom indicator. **Matt** mentioned the forestry side, which is one of the indicators that Solomon Islands is currently below the milestone where they would need to be for the compact. The natural resource management indicator is closely aligned with what they are targeting through the forestry project.

Nadia Schadlow asked how some of these programs might interact with programs of other countries active in the region, specifically Australia. **Jason** replied that their country team lead, Grace Morgan, landed in Australia before visiting the Solomon Islands, and talked with the Australians to understand the Pacific environment and regional strategy. Australia and New Zealand are very engaged a donor level, and the team coordinates with both closely. **Matt** added that on the forestry side, they had been working with donor-led working groups on the forest sector involvement in Solomon Islands. It is currently led by JAICA, but the Australians, New Zealand, DFID, and ADB are coordinate closely. The project was designed and built around gaps that other donors identified.

Tam shared a finding regarding ecotourism that people are willing to pay beyond the backpacker and diver infrastructure. **Jason** expressed how it is not just the millennials who are willing to do so, but also the development professionals who are designing the programs.

Kate Steel asked about the possible reasons why private sector investors are not engaged in Solomon Islands, or have invested only on a limited basis, and the risk reduction tools available. **Jason** responded by saying that it does center around land tenure, security, and leaseholders. There are community owned lands, but investors are not going into community owned lands because of the risks that that community could present. These include changing direction or ambiguities in general. Jason suggested that they could build social licenses, such as a type of political risk insurance.

Tony asked if there is an opportunity for agro-tourism and the investment opportunity to leverage it. **Valerie Vencatachellum** asked, in terms of the implementation mechanism, how they will ensure the political clout and impetus of the government continues to accompany the project throughout its lifetime. **Jason** replied that regarding agro-tourism, they want to get into the supply chain to be a beneficiary, and how it is not only land-based agriculture, but also seafood. Then, regarding government, Jason mentioned bringing in the PM's office, and a kind of delivery unit down below. **Matt** added that they will implement purely through partnerships with each of the projects, which elevates the need for the link with the government. There is a need for a board-like structure (e.g., a type of advisory council) which will be the formal entity for the program itself that will cover all the things one typically looks for in an MCA.

Carolyn Campbell expressed her concern about rising sea levels and how a coastal project might not be a long-term plan for foreign investors and wondered if there was anything further inland available for investment. **Oren Whyche-Shaw** asked if there are any efforts to affect the demand side for wood and as well as for managing the supply side. Also, what specific policy changes would investors want in the tourism sector, and what targets does MCC see as potential successes for these threshold projects. **Matt** replied, expressing that on the forestry side the main reason why they are not focused on the demand side is that there are other donor partners active in that space, and they are trying to create a niche for America's most productive engagement. Also, Forest Service Growth is working with Solomon Islands on the import and export recording and enforcement of that part of the problem. He believes the intermediary market is important, and they are working to develop value added sources of FSC, such as sustainable lumber. Therefore, the ATP differed, and U.S. efforts are primarily engaged in those issues.

Jason added how the first step of their project is to leverage that work and go out to investors, which IFC is going to be an implementing partner in doing. Then, MCC is going to pick up the community engagement, governance, and facilitation, while IFC does investor outreach and brings in investors to help negotiate the transactions.

Concluding Remarks/Housekeeping

Alex thanked Jason and Matt and requested that all follow up questions be submitted via email for response. Alex mentioned that MCC is going to continue to have the Finance Committee and is going to expand the energy subcommittee to include climate as well. Two committees will be formed, and after the meeting the meeting minutes will go out within the next two weeks, and members will be called for their availability. The next subcommittee meeting will be within the next 90 to 120 days, and conversations regarding energy and climate will be highlighted.

Opportunity for Public Comment

There were no public comments.

Meeting Adjourns

MCC Advisory Council Members Present

- Kate Ahern
- Tony Bello
- Carolyn Campbell
- Peter Choharis
- Justin DeAngelis
- Tariye Gbadegesin
- Stephen Groff
- Cem Hacioglu
- Lawrence Jones
- Jeffrey Krilla
- Florie Liser
- Tam Nguyen
- Joshua Powell
- Robert Prieto
- Daniel Runde
- Nadia Schadlow
- David Spira
- Kate Steel
- Valerie Vencatachellum
- Deidre White

- Oren E. Whyche-Shaw

External Participants Present

- Stephen Offutt (public guest)

MCC Advisory Council Members Absent with Apologies

- William Gaynor
- Maureen Harrington
- Shehnaz Rangwala
- Olu Verheijen

MCC Participants

- Cameron Alford
- Jason Bauer
- Alex Dixon
- Aysha House
- Matt Kuniholm
- Alexia Latortue
- Jennifer Rimbach
- Beth Roberts
- Fatema Z. Sumar

Annex

The Annex information below contains MCC Advisor Council members' written responses to questions posed before the meeting.

Questions include:

1. What will be the most important factors and risks that investors will consider in a new market like the Solomon Islands?
2. Do you have ideas on how MCC might use blended finance tools to reduce the risk of investments for the private investor – while at the same time stimulating inclusive community governance and decision-making structures that create new opportunities for community members to benefit from and participate in tourism investments?
3. How might MCC attract or facilitate private sector interest in the purchase of voluntary carbon credits generated through MCC projects, such as the Payment For Ecosystem Services Activity of the Solomon Islands FoVEP project?
4. It is expected that logging in the Solomon Islands will continue to decrease significantly and that

sustainable management of SI's forests involves a much lower level of logging than occurred in recent decades. Given the historically strong role of the logging industry (politically and economically), are there good practice examples of how private sector actors in an unsustainable declining market can be engaged as allies in the transition to sustainability?
5. Based on your understanding of the Solomon Islands context and the activities planned in the Threshold Program, what opportunities do you see for the ACFD to use blended finance instruments to promote gender equality and women's economic empowerment?

Carolyn Campbell

1. You have mentioned the geopolitical risks and recent changes as well as the land rights issues, which are significant, and your compact seeks to address them. These get to a fundamental aspect of tourism, which is popularity of the destination and ease of access. Solomons Island in particular has interesting WWII relics (they used to have sunken ships just offshore) which could be attractive. Casting the destination as having unique features – historically – to differentiate it seems to boost performance. The sector has not been viewed favorably by private equity in the past; however, if the opportunities do not entail a significant debt burden and include participation in management contracts (the fees from which could be tied to maintain certain SG&A levels), we see this sector becoming more attractive. The Latam group at CVCI (the Quebecois pension) recently did well on tourism investments that had low debt burdens and high popularity.
2. My main comment on blended finance is that it might take into account the regular fees that come from the management contracts. Hotel and resort ownership in itself is not the /most attractive investment in terms of real estate or general profitability; however, management contracts offer regular revenues. One idea might be to have a split of the fees – to the government/community members – above a certain threshold, perhaps? Or issue bonds linked to the other regular revenue features (again, I am presuming casinos are out but they have such features).
3. Speak with impact funds and forestry funds (Rohatyn Group has one that was performing well as of last year) on this feature.
4. See 2 and 3 above.
5. In addition to my response in 2. above, could some portion of sweat equity be valued in the investment, with a certain percentage reserved for women? Or an interest-free loan to women/local communities to invest in certain projects, to align them with investors? One risk of this, however, is making sure the communities know the risks and how long it takes for an investment to perform and provide returns, so a community shareholder coordinator should be appointed to keep them apprised very regularly. This is true even of local pension investors.

If we were looking at an investment in a very small single country, we would not want to take any local currency risk. We also would not allow any disputes to go to a Solomon Island court or other forum – even for a large emerging market country, we insist on offshore jurisdiction. We would also want to see some examples of who has been able to make money and exit, and what multinationals operate there and what their experience has been, if any exist.

Oren Whyche-Shaw

1. What are Solomon Islands' competitive advantages versus other similar Pacific islands? Lower

tourism levels have been mentioned. Are there others? It would be interesting to get a sense of why "anchor" tourism investors have not been more active in the market. What do they see as the major factors and risks? Land acquisition has been cited as a key constraint, as well as the quality of the infrastructure. What about quality services provided by local staff? Given a rather high level of crime, are most existing hotels/tourism activities "enclaved"? Having roundtable meetings with key (large and medium sized) hotel chains and, tour operators in the region as well as local hotel/tourism investors is what's needed to answer these questions. I am presuming the IFC is undertaking such roundtables and MCC is engaged.

2. Again, the risks need to be specifically identified before determining how to mitigate them through the use of blended finance or policy and law changes (of course, blended finance will reduce/subsidize the investment for a period of time) – but there may be other risks that aren't directly financially driven … erosion of beaches due to climate change, making sure the quality of services meets their standards and might require training, the ease of the import of brand items for chain hotels, etc., etc. Policy and legal changes in and of themselves may be necessary but not sufficient. It is the consistent implementation that reduces risks. How will plans be put in place to train all government actors down to the customs agents to know about the changes and assure those changes are being implemented?

Also, with respect to infrastructure, who will be footing the bill for upgraded roads, telecommunications, etc.? Regarding the inclusion of community members to benefit from and participate in tourism investments, some immediate targets come to mind:

a. Construction of venues
b. Direct ongoing employment – working in and around the hotels
c. Transportation and guides
d. Suppliers and service providers, in particular provision of locally grown food that meets the investors standards
e. Entertainment services

I would suggest incorporating issues and concerns that could be generated by community governance and decision-making structures as much as possible into the policies being considered, which will eliminate layers of approvals and time, if possible. Few investors will be happy about national policies that still leave them to then have to negotiate with local communities before they can move forward. It should be clear upfront what the expectations are especially concerning local employment, etc.

With respect to infrastructure and large capital expenditures. This would seem an area ripe for blended finance … upgraded roads, electricity (and backup generators), access to telecommunications, Internet, water supply, etc.

3. Work with the suppliers of gasoline to the major distributors to South Pacific Oil and Markworth Oil, Ltd. Melansesian Oil gets their gasoline from South Pacific Oil. Suggest exploratory discussions and, possibly, partnerships with organizations that work/prompt carbon credit projects, such as Southpole.com and Terrapass et al.
4. I was engaged in an onsite assessment of the logging sector in Liberia during the transition to the democratically elected government of Pres. Johnson-Sirleaf. As is the case in the Solomon Islands, corruption was present. Working jointly, the IMF, World Bank, and USAID and senior

government leadership drafted and put in place significant policies, laws, and regulations to tamp down the corruptive influences and lessen the dominance of the logging industry. However, once the key donors lessened their oversight and many of those control measures were lifted, the dominance of the logging companies and the inevitable corruption returned. As such, I have no good example to share. The lesson learned, however, was the need to find a way to incorporate the old adage, "Follow the money." What is/are the primary market(s) for the exports? How can one influence demand? In the Solomon Islands, there is clearly ecological damage from these activities and there is grassroots resentment and demonstrations, which need to be highlighted in the receiving markets. I will be very interested in learning from my Council colleagues what practices have indeed worked and where.

5. Women should be strongly encouraged to engage in every aspect of the projects being contemplated. Where women have limited access to credit for all the activities listed in #2 above, blended finance can be a catalyst to small and medium businesses being launched, along with technical assistance to support those businesses.

Robert Prieto

The following factors will likely be weighed by potential investors, with added diligence placed on those that screen for either higher probability of occurrence or which, if they occurred, could have significant value-destroying consequences.

Economic

- Market and revenue – These would include risks that change (accelerate/decelerate) the demand for the investment's outputs or otherwise modify the desired outcomes. Similarly, it would include changes in market conditions for primary or critical program inputs. Other market and revenue risks could include:
- Market development slower than projected
- Slower general economic or demand growth
- Changed priorities either by local authorities or by the target market
- Longer gestation time in approval and implementation of the project, contributing to a competitive disadvantage
- Market rates lower than projected
- Higher than anticipated price sensitivity, created either by global economic conditions or by comparable competing developments
- Increased competition, locally or regionally
- Price caps (less likely for Solomon Island investments of interest, serving a regional or global market vs. local market)
- Reduced market share
- Delayed project completion
- Increased competition, including competing local investments
- Synergistic opportunities fail to emerge (eco-tourism and carbon neutral demands)
- Finance risks – These would include changed financial market conditions that either limit access to capital or change the cost of capital for the program. Similarly, finance risks may affect the supply chain because of "local" financial market changes for key elements of the program's supply chain, including the need to create elements of the supply chain for developed investments. This

may put added pressure on advance funding for the program and investments by MCC and Solomon Island government at different points around both the project implementation (skilled construction labor) and project sustainment (skilled labor for the operating workforce). Project developer finance risks or perceived difficulties may drive suppliers to seek additional advance payment, further exacerbating the project's financial situation and robustness.

- Other finance risks could include:
  - Deflation
  - local currency collapse
  - non-convertibility of select currencies or repatriation taxes
  - local financial market volatility.
- Cost risks – These include both construction and operating costs but beyond those traditionally considered, such as escalation, exchange risk, and quantitative uncertainty. Examples would include:
  - supply-demand imbalances for key CAPEX inputs
  - embargoes or other export controls from supply chain countries
  - changed tariff structures affecting both CAPEX and operating feedstock (non-local foods and materials, for example)
  - strengthened labor bargaining power, including government acting on local labor's behalf on select international development projects
  - general discontinuous cost increases for major inputs beyond those associated with normal escalation (example: carbon tax on imported carbon).
- Other cost risks could include:
  - regulatory changes to standards
  - delayed government action or government pressure for scope beyond regulatory requirements
  - changed work rules or government payments (social security contribution rates)
  - mandated payments (healthcare)
  - supply chain logistical disruptions (maritime strike, damaged port, rail, or road disruption from failed or inadequate infrastructure, rail or road transport strikes or other labor actions)
  - expropriation of land, equipment, or materials
  - changed visa requirements
  - changed tax or corporate laws
  - constrained project bonding market
  - defaults of key suppliers (especially local suppliers) or capital sources
  - free services to be provided as part of social license to operate
  - changed pension requirements in operating phase
  - shortage of skilled labor
  - increased cost of security
  - civil unrest
  - change of government
  - natural disaster
  - cost of inefficiency from not engaging in corruption.

Each of these cost risks needs to be considered at the program and supplier level as well as in the program country and key supplier countries.

Social

- Culture – On international engineering and construction programs, the increased use of global workshare practices elevates the importance of cross-cultural risks associated with differences in norms, gender roles, social stratification, role of authority, sense of time, and decision-making frameworks. These risks may be elevated by geopolitical events that increase tensions between cultures outside of the program itself.
- Ethics – Bribery and corruption risks (both payment and receipt), agent risks including changed agent agreements

Political

Political risks include consideration of not only the program's home country but also those of key suppliers. Specific political risks to consider in each of these locations include:

- Change of government including party or revolution
- Sequestration – Can include seizure of supplier inputs or materials or product intended for the program
- Exclusivity
- Changes in fiscal policy, which can change sovereign debt ratings affecting project financing
- Changes in law, both general and program-specific
- Approvals
- Development
- Right-of-way
- Environmental
- Construction
- Import/export
- Operating
- Repatriation of profits
- Adverse government action/inaction
- Regime change
- Political stability process to avoid collapse
- Economic or cultural stability to uphold agreements
- Provision of utilities/other services
- Increases in taxes, both general and program-specific
- Political force majeure events
- Civil strife
- Terrorism
- Conventional war
- WMD
- Termination of concession/contract
- Payment failure by government
- Property rights
- Clear title or lease
- Easements or other limitations
- Intellectual property (patents/copyrights), including third-party actions alleging infringement by suppliers

- Ownership of assets
- Structure of project securities
- Availability of securities market
- Insolvency by government or concession company
- Changed conditions on foreign ownership or operation
- Enforceability of legal rights
- Contract rights
- Regulatory obligations
- Financing documents
- Security and insurance

Intellectual/Ideas

- Corporate social responsibility
- Social responsibility, including anti-child labor throughout the supply chain, indigenous people's risks, and risks associated with changed social outreach requirements, including changed social benefits for the general population
- Environmental stewardship, including changed risks associated with mitigation and enhancement, greenhouse gases, international and local pressure groups, and international protocols
- Corporate governance, including engagement of more stakeholders, increased disclosures and data collection requirements throughout the supply chain, and a reduced owner and supplier risk appetite
- Evolving political forms
- International and local pressure groups
- Can be a major risk to schedule, costs, and approvals
- Can stall projects indefinitely
- Access to knowledge, including limitations on Internet access; cybersecurity risks

Technology

- Capacity building
- Intellectual property, including theft and infringement

Blended Finance Tools

There are two areas for distinct investment suggested in the provided materials. The first relates to the development of an environmentally and socially sensitive tourism industry and the second relates to the transition of the logging industry. With respect to the second, the following sections provide for the purchase of certified (and marketable) carbon credits generated within the Solomon Islands from a transition of logging practices. Such credits would be available only from legal logging operations and would tend to reduce advantages from illegal logging.

Returning to the tourism sector, blended finance could consist of a package of risk guarantees (addressing the relevant risks described in the prior section), subordinated debt and forgivable "grants."

Risk guarantees would be conditioned on the project meeting a defined set of social, gender, and environmental targets within an initial construction and operating period of, say, 10 years. Failing to achieve certain milestones would result in loss of guarantees after the 10-year period. Extension of guarantees would be possible if all criteria are met and would be purchased with any excess certified carbon credits that would be marketable by MCC.

Sub-debt (or debt guarantees) would have an initial interest-free period, after which the interest rate would scale based on performance against established social, gender, and environmental targets. These targets may differ from those associated with any risk guarantees and generally should be more attractive/punitive. For example, during construction there would be no repayment or interest on the sub debt. Once the facility is in operation, the coupon on sub-debt would be set equal to that on senior debt, but the interest rate reduced, potentially to zero, based on performance against established targets. A threshold performance level would be set that would act to reduce the tenor of the loan instrument if the threshold levels are not met. Overall tenor of sub-debt should not exceed, say, 15 years of operation.

Forgivable "grants" would be targeted as incentives to develop local supply chains reflecting small business and gender considerations that directly support the project. They would represent a blend of an outright grant to the project linked to certain performance criteria in these areas and forgivable short-term loans, where forgiveness would be based on meeting certain targeted performance criteria during construction and initial operation (maximum of three years).

One underlying principle for all tourism projects should be a total carbon footprint over its lifetime that does not exceed zero.

Purchase of Carbon Credits

As part of any MCC financing tools/support score, proposed investments in terms of carbon-neutrality with most favorable terms going to investments that are carbon-negative (generate carbon credits). Investments that are not carbon-neutral or -negative can improve their terms by purchasing carbon credits generated through MCC projects. The potential exists for MCC to create a market for international development project carbon credits encompassing MCC and other cooperating International Lending Agencies.

Transition from Logging

Evaluate, as an interim step, the methodology for improved forest management through reduced impact logging described in the following video.

This methodology is being applied in field studies in Peru, Suriname, Mexico, the Congo Basin, and Indonesia and has shown that RIL-C can reduce emissions by 50 percent without loss of wood yield or forestry sector jobs. More detail can be found at: https://verra.org/wp-content/uploads/2018/03/VM0035-RIL-C-Methodology-v1.0.pdf

Certification of carbon emission reduction can be provided to legal loggers with MCC or other carbon markets buying these credits, incentivizing carbon reduction and providing economic advantages to legal loggers.

Gender Equality/Women's Economic Empowerment

These have been described in the context of blended finance tools above.

Tariye Gbadegesin

ALTIF

National Tourism Strategy – the over-arching tourism strategy was not provided as part of context and is important to assessing the viability of the development strategy. What informed the decision for 3–4-star hotels? It will be useful to address the underlying tourism strategy in the context of the region. Has high-end tourism been considered and have travel routes been addressed for market viability?

What is the location of the land and has long-term impact of climate change been factored into the value of land over time? Assuming the land is by the coast – low-lying island states are subject to rapid land encroach due to rising water levels. Has this been factored into the land parcels? Consider working with government to map the perimeter beyond the land parcel for title i.e., title to water-based property – to enable "building on water".

The single window is a crucial enabler, as it forms a one stop shop construct and will anchor the implementation. Implementing partner is a significant role and may not be developed. Is this to be a local firm? An international firm?

FoVEP

The paper implies that the "customary use of forest resources" would be logging. So, what would a pES program aligned with customary uses of forest resources other than logging be? Has this study been done on the alternative forest resources as well as on potential buyers for the forest resources?

If logging is what is customarily done, will there by a regulatory enhancement to manage illegal logging, replantation, and public awareness – as well as incentives – e.g., access to credit benefits, etc.

Questions

1. Tourism demand would be the most significant risk to assess in terms of travel to the country and the draw relative to the other countries with more developed sectors. This is worsened in the context of COVID where travel has become significantly reduced. How will Solomon Island *draw in* travelers.

2. To attract investment, the government would need to serve as an investment anchor to drive investment.
3. A private investor may consider investing if they already have assets in the other countries and can link up the value proposition of Solomon Islands to other resorts.
4. Declining land value from sea encroachment would be another great challenge, addressed above in the context of climate change.

Carbon Credits: Voluntary carbon credits – the certification and stability of the credits with a robust government / independent database will be critical.

The model for attracting private sector actors into an unsustainable declining market is by providing an alternative revenue source for them or by improving the value of the forestry sector when it is more sustainable. E.g., transitioning them to become investors in the construction of the hotels using sustainable earth resources. To match the economic return, try to provide incentives to move them into sustainable mining especially if there are rare earths that go into the alternative energy value chain.

Opportunity for blended finance to support gender economic empowerment. Forest-based resources that are akin to women-owned enterprises can be tailored to the beauty/cosmetics / medicinal value chain, similarly to what has been done in the Amazon. There can be ties to specialty natural beauty companies to take up these ingredients, but they will require a guarantee of supply. Grant funding for training and seeding with some investment along the chain backed by guarantees could develop the sector.

Another area of interest is related to the specialized marine aqua culture – e.g., sea cucumber or oystering, etc., that can be well-suited to women, especially via cooperatives.

Tony Bello

- Portfolio investment briefs and business development opportunities
- Local content laws and regulations
- Enabling business environment
- Risks insurance instruments
- Regional market competition
- Climate Change Adaptation
- Food and agricultural investments
- Women and youth empowerment
- Entrepreneurial capacity development – focus on tourism, food, and agriculture
- Local content deal origination
- Public-private partnership inclusive financing and risk mitigation financial instruments
- Reforestation laws and regulations
- Promotion of local content laws and regulations
- Project Development Facilities
- Creating food and agribusiness investment opportunities
- Community engagement in deal origination and investment partnerships
- Reforestation and enabling business environment laws and regulations
- Women-focused share of investment ownership

- Entrepreneurship capacity development

The Gender Factors

The natural resources of Solomon Islands are under threat – loss of major land and marine habitats; over-exploitation of natural resources; destructive harvesting techniques; invasive species; and climate change from sea level rise and more frequent destructive climatic events. With human activity – increasing population at 4.4% annually, snowballing consumption, changing economic and technological circumstances – all putting pressure on natural resources and land for food and food production, a Small Island State like the Solomon Islands is battling the severe impact on its coastal communities, islands, and atolls – unless there is a serious attempt at a national level at mitigation and adaptive measures to ensure that the nation is prepared to deal with the changes and impacts. A serious attempt at national and sub-national levels at mitigation and adaptive measures would be a combination of tourism as entrepreneurship plus a never-before-seen focus on women, appealing to their spirit of enterprise through the tried and tested WIVES.

Youth and Women

In the contemporary era, both in industrialized countries and in emerging countries, the prime concerns are individual rationality and creativeness of entrepreneurial businesses. An entrepreneurial philosophy ultimately reduces the unemployment rate, particularly among educated youth. Examining tourists' industry and the tourism industry processes is the principal step to empowering educated youth to undertake entrepreneurial tourism businesses. The tourism industry is viewed as the agent of economic and social change – a major tenet of *WIVES – Women in Integrated Vocational and Entrepreneurship Skills.*

WIVES will play a vital part in transforming the supply of leisure and recreational opportunities, as the critical factor in tourism development locally. While WIVES shall be recognized as the basic way to provide strategic support for maintaining business development and economic growth, it will show that the birth of tourism industry businesses is not an act of nature, but an act of tourism entrepreneurs. Tourism entrepreneurship eliminates societal problems, but surge the fiscal growth and development of a country, resulting in a rise in country GDP. WIVES and tourism in the Solomons Islands are a combination that is apt and apposite.

WIVES may tap into the WTO – UN Women – the German Development Agency GIZ – World Bank – Amadeus partnership for funding support. The United Nations World Tourism Organization (WTO) sees sustainable tourism as *"tourism that meets the needs of present tourists and host regions while protecting and enhancing opportunity for the future."* The WTO views sustainable tourism not as a product type, but as an ethos which should encompass all tourism activities. As such, it is integral to all aspects of tourism development and management – rather than being merely an add-on component. This is what Solomon Islands tourism entrepreneurship should aim for – helps SI deal with environmental components of destination marketing.

WIVES will contribute to gender equality in the tourism sector, pinpointing challenges and identifying ways to mitigate inequality and harness tourism's potential to advance gender equality and women's empowerment worldwide. Globally, in 2019, travel and tourism's direct contribution to GDP was approximately 2.9 trillion U.S. dollars. When looking at countries that directly contributed the most to global GDP, the United States' travel and tourism industry contributed the largest sum – 580.7 billion USD. Meanwhile, in a ranking of the countries with the highest share of GDP from travel and tourism, the city and special administrative region of Macau generated the highest share of GDP through direct travel and tourism of any economy worldwide; in Macau, 8% of people employed in tourism in the region are women, compared to 16% in the overall economy of the region. It makes a clear statement that, on a global level, 54% of people employed in tourism are women – compared to 39% in the broader global economy. Solomon Islands will benefit immensely with WIVES.

Justin DeAngelis

1. It's not clear to me if there is a lot of geopolitical risk, but if there is then certainly that is a key risk. It looks like there's a lot of focus on tourism, so showing investors a path to growth in that market is quite important. You will need infrastructure – airports, power, water – to help spur large investments in hotels and entertainment. With a lot of logging, I'd think a waste biomass power plant would help a lot with power resources.
2. Addressed in (1) and in the presentation re: PRI. Certainly some level of first loss might help hotel chains to make significant investments in the country, but I'd think they want to see proper infra first.
3. I don't really see that as an incentive of material note.
4. We need to help people see other employment/reskilling.
5. I think creating simple requirements to get funds should work. What is the cultural makeup of the island in regard to gender equality?Addressing that inequality might be a required first step.